

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF KAISER-FRANCIS OIL)
COMPANY TO AMEND ADMINISTRATIVE ORDER)
NSL-5133 TO ESTABLISH A NONSTANDARD)
SPACING AND PRORATION UNIT AND FOR AN)
EXCEPTION TO RULE 104.B.(1),)
EDDY COUNTY, NEW MEXICO)

CASE NO. 13,594

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 17th, 2005

Santa Fe, New Mexico

2005 DEC 1 PM 3 37

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 17th, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing
 CASE NO. 13,594

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<u>JAMES T. WAKEFIELD</u> (Engineer)	
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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

MILLER, STRATVERT P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 8:37 a.m.:

3 EXAMINER CATANACH: Call Case 13,594, the
4 Application of Kaiser-Francis Oil Company to amend
5 Administrative Order NSL-5133 to establish a nonstandard
6 spacing and proration unit and for an exception to Rule
7 104.B.(1).

8 Call for appearances in this case.

9 MR. HALL: Mr. Examiner, Scott Hall, Miller
10 Stratvert, PA, Santa Fe, on behalf of the Applicant Kaiser-
11 Francis Oil Company. We have one witness this morning.

12 EXAMINER CATANACH: Will the witness please stand
13 to be sworn in?

14 (Thereupon, the witness was sworn.)

15 MR. HALL: For the record, Mr. Examiner, the
16 location is in Eddy County. I notice that wasn't on the
17 advertisement. I don't know what happened about that, but
18 I looked at the rule and it appears that the advertisement
19 comports with the rule anyway, but I'll leave it to your
20 discretion if you think we need to advertise that again to
21 pick up the county?

22 EXAMINER CATANACH: Well, it does say -- it does
23 give the location --

24 MR. HALL: Right.

25 EXAMINER CATANACH: -- one-half mile southwest of

1 Carlsbad. That's pretty close.

2 What do you think?

3 MS. MacQUESTEN: I don't know, I'll need to check
4 the rule.

5 MR. HALL: Yeah, I did. The rule doesn't require
6 the county be designated, but there is a description, so...

7 MS. MacQUESTEN: Did you designate any county? I
8 haven't seen the advertisement, so...

9 MR. HALL: On the face of the Application, yes.
10 Not in the advertisement; just section, township and range.

11 MS. MacQUESTEN: And those are correct?

12 MR. HALL: Yes.

13 EXAMINER CATANACH: I don't know that I've ever
14 seen one without the county.

15 MR. HALL: I don't know what happened.

16 MS. MacQUESTEN: And is it all in one county
17 or --

18 MR. HALL: Yes.

19 MS. MacQUESTEN: -- across counties?

20 So no one would be misled?

21 MR. HALL: I think people could figure it out.

22 EXAMINER CATANACH: And the notice you give to
23 the affected parties had a description, a complete
24 description.

25 MR. HALL: Yes.

1 EXAMINER CATANACH: I'd say it's probably okay.
2 I think you can just let it go, Scott.

3 MR. HALL: Okay.

4 JAMES T. WAKEFIELD,

5 the witness herein, after having been first duly sworn upon
6 his oath, was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. HALL:

9 Q. All right, for the record, please state your
10 name, sir.

11 A. James Wakefield.

12 Q. By whom are you employed and in what capacity?

13 A. I'm vice president of KF Energy, LLC, a
14 subsidiary of Kaiser-Francis Oil Company.

15 Q. And you've previously testified before the
16 Division, had your credentials accepted as a matter of
17 record; is that correct?

18 A. I have.

19 Q. And are you familiar with the subject matter of
20 this Application in the subject lands?

21 A. Yes, I am, it's an application to amend
22 Administrative Order NSL-5133, wherein we're establishing a
23 nonstandard spacing and proration unit and an exception to
24 Rule 104.B.(1) for the Delaware and Bone Springs
25 formations.

1 Q. All right. We should establish by education and
2 background that you are a petroleum engineer; is that
3 correct?

4 A. I am, yes.

5 MR. HALL: Mr. Examiner, we would offer Mr.
6 Wakefield as a qualified expert petroleum engineer.

7 EXAMINER CATANACH: Mr. Wakefield is so
8 qualified.

9 Q. (By Mr. Hall) Again, if you would just briefly
10 summarize what it is Kaiser-Francis seeks by the
11 Application.

12 A. What we're doing is plugging back a well that was
13 drilled to the Morrow and Atoka zones, and Strawn zones, on
14 a 320-acre spacing unit, where we failed in the Strawn and
15 then mechanically cannot go back down to the Morrow.

16 We're asking that we have the permission of this
17 Commission to recomplete uphole to the Bone Springs and
18 Delaware zones.

19 Q. All right. And if you'll refer to Exhibit Number
20 1, are we here today by virtue of some of the provisions in
21 this order, Administrative Order NSL-5133?

22 A. Right, on November 17th, 2004, we obtained an
23 order to drill this well at a nonstandard location for the
24 gas zones -- Strawn, Atoka and Morrow -- with the provision
25 that if we were to be so unfortunate not to make a

1 completion in those zones, that we would have to come back
2 to this Commission to get approval before completing in
3 uphole oil zones.

4 Q. All right. And was your unorthodox location
5 request based on geology?

6 A. It was. We were trying to offset a Strawn test
7 and -- that made water. We were trying to find the most
8 updip location possible in the west half of Section 11,
9 which we found, and we found excellent pay, but we were
10 just never able to get high enough on structure to make
11 gas.

12 Q. What was the footage location of the well that
13 you requested in that case?

14 A. The footage location -- This is an extended
15 section, so it's more than 5280 foot north-south. The
16 location is 660 from the west line and 2661 feet from the
17 south line. And by -- that is 2700 feet from the north
18 line, so just an extended section.

19 Q. Now, if you refer to Exhibit 2, the C-102 plat --

20 A. Right.

21 Q. -- where does that location put you in proximity
22 to a quarter-quarter section line?

23 A. We're 19 feet from the centerline of the section.

24 Q. Now, was the authorization for the unorthodox
25 location in NSL Order 5133 limited to the Morrow formation?

1 A. Yes, it was.

2 Q. And does that order --

3 A. Well, Morrow, Strawn and Atoka.

4 Q. All right, all those 320s?

5 A. Right.

6 Q. And that order contains an express provision that
7 requires you to go to hearing to add any other formations
8 to that well; is that right?

9 A. That's correct.

10 Q. All right, let's look at Exhibit 3. If you would
11 explain that, please, sir.

12 A. Exhibit 3 is a wellbore diagram, giving the
13 history of what's happened to this well. We drilled it
14 through the Morrow to a depth of 11,500 feet.

15 Because of the offsetting Strawn production, we
16 wanted to be able to offset its production to avoid
17 drainage. We tried essentially four different perforated
18 intervals in the Strawn, all of which made water, and gas;
19 we could never get the well to flow. The gas would burp a
20 little bit, and then it would cease and we'd only have
21 water.

22 After several attempts to isolate zones, we
23 determined that we -- the only way we could make any gas
24 from this well was to squeeze off the Strawn and go down
25 and test the Morrow zones that looked productive on the

1 logs.

2 However, in doing so, we were squeezing in a
3 series from bottom up, to make sure we were -- had the
4 water shut off. One of the perforations we were squeezing
5 broke around, behind casing, above the packer, and stuck
6 approximately 2000 feet -- well, actually it was slightly
7 more than 2000 feet of tubing, was cemented in the hole.

8 We then attempted to metal-munch out the tubing
9 and cement. We were unsuccessful. We now have a top of
10 fish of 7763 feet inside the 5-1/2 casing, and we cannot
11 utilize this wellbore to reach the Morrow formation at this
12 time.

13 Q. All right. Now, when you logged the well for the
14 initial drill, were there shows in the Bone Spring and
15 Delaware formations?

16 A. We did note, particularly the second Bone
17 Springs, an excellent oil show that was completely
18 unexpected.

19 Q. Let's refer to Exhibit 4, if you would, please.

20 A. This is a cross-section of essentially the --
21 from the first, top of the first Bone Springs sand to the
22 top of the third Bone Springs lime. And our -- the well of
23 interest is the Mesa Grande 2-11, which is in the middle of
24 this cross-section, and the third solid line down would be
25 the top of the green zone, which is just a colloquialism

1 we've adopted for the pay zone in the second Bone Springs
2 lime.

3 And I've drawn in there a line showing where the
4 four-percent porosity is at, from approximately 6310 down
5 to 6470. And there -- As you can see on that, there's
6 probably 60 feet, close to 60 feet of pay that exceeds four
7 percent. And this zone did put oil in the pits and created
8 a flare. I cut the mud significantly. We had to raise mud
9 weight to 9.2 pound per gallon to drill through it. We
10 think this will be an excellent oil zone.

11 There also shows in the second Bone Springs sand,
12 which -- in this well the curves are at a depth of about 67
13 and 90 feet, that may also produce.

14 Q. Now, by utilizing the 2-11 wellbore, can you
15 avoid incurring the costs of drilling a new straight hole
16 to the Bone Spring-Delaware formation?

17 A. Yes.

18 Q. And how much does that cost?

19 A. Well, a new well would be about \$850,000.

20 Q. Okay. So will utilizing the existing wellbore
21 enhance the economic case for testing the Bone Spring and
22 Delaware here?

23 A. Yes.

24 Q. Based on the success of the 2-11 well in the Bone
25 Spring and Delaware, do you anticipate you might drill any

1 of the other 40-acre oil units in Section 11?

2 A. If this well is successful, then there would be
3 an opportunity to drill north-south of this well as many as
4 three locations.

5 Q. And is it likely that the Bone Spring and
6 Delawares would otherwise be developed without the
7 availability of this wellbore?

8 A. No.

9 Q. Let's refer to Exhibit 5.

10 A. Exhibit 5 is a plat that shows the location of
11 the Mesa Grande 2-11 wellbore and its offsets in the nine-
12 section area, and I've superimposed on that plat a
13 depiction of the -- what I see as the net pay for the
14 second Bone Springs green zone, which -- the center of the
15 thickest sand being -- overlying the Mesa 2 -- Mesa Grande
16 2-11 wellbore, with 64 feet of net pay out of 137 foot of
17 gross pay.

18 So you can see the well immediately to the east
19 of the Mesa Grande 2 and the Mesa Grande 1-11 has 12 feet
20 of net pay out of 142, the Mesa Arriba 1-10 to the west has
21 38 feet out of 118, and then the WC 3 in the southeast
22 southeast of 3 has 18 feet of net pay, and the Mesa Federal
23 1-15 in the northeast northeast of 15 has 13 feet of net
24 pay.

25 I would also have you note that there are no Bone

1 Springs or Delaware completions in the nine-section area,
2 and if you were to expand this plat out, there's no Bone
3 Springs-Delaware completions within six or seven miles
4 radius. So this would essentially be a discovery, if
5 indeed we are so fortunate to make a commercial completion.

6 Q. All right. If you would refer back to Exhibit 2,
7 the C-102 acreage dedication plat, would you explain to the
8 Examiner why you're proposing an 80-acre unit for this
9 well?

10 A. The location of our well is only 19 foot off the
11 centerline. It's located in the northwest of the southwest
12 quarter. And what we're wanting to do is form an 80-acre
13 spacing unit which would then allow us to have a 40-acre
14 option to infill the other 40 in the 80, which would be the
15 southeast of the northwest, for development on 40-acre
16 spacing, which would then give us uniform 40-acre spacing
17 throughout the west half of Section 11.

18 I would also say that Kaiser-Francis owns 95
19 percent of the 320-acre unit, and the JOA for that 320-acre
20 unit is from surface to the base of the Morrow. So all
21 ownership is the same in this well, no matter what zone we
22 go to. The leases are unitized between the two -- for the
23 80 acres, so the royalty owners would be the same.

24 Q. Now, under the Division's rules, would it have
25 been practicable to try to establish a 40-acre unit for

1 this well that would straddle the quarter section line?

2 A. No, we would have wound up with two 60s, one
3 north and south of the 40-acre that was devised.

4 Q. And if the 80-acre unit is approved, depending on
5 the success of the test in the Bone Spring and Devonian in
6 the 2-11 well, would you then seek to drill a second well
7 in the 80-acre unit?

8 A. We would.

9 Q. Tell us about the ownership in the 80-acre unit
10 you're proposing.

11 A. Again, as I said a moment ago, we'll have --
12 Kaiser-Francis will have 95-percent-plus of the working
13 interest ownership. The JOA covers the entire 320-acre
14 tract, spaced unit, for the Morrow. And that JOA also
15 covers all zones to the surface, through the base of the
16 Morrow. So all ownership remains the same.

17 Q. So if the 80-acre unit is approved, will the
18 interest of any owners be diminished?

19 A. No.

20 Q. Okay. Now, with respect to the resulting
21 unorthodox well location for the Bone Spring and Delaware
22 completions, does the location encroach against the well of
23 any other operator?

24 A. No.

25 Q. And does the designation of an 80-acre unit with

1 the option for a second well give rise to any drainage
2 concerns in the area?

3 A. No, there are no other Bone Springs-Delaware
4 wells in the area.

5 Q. Okay. And in your opinion, would granting the
6 Application protect correlative rights, avoid waste, and
7 otherwise be in the interest of conservation?

8 A. Yes.

9 Q. Were Exhibits 1 through 5 prepared by you or at
10 your direction?

11 A. Yes.

12 MR. HALL: That concludes our direct of this
13 witness.

14 We'd move the admission of Exhibits 1 through 5,
15 and we would also offer into evidence Exhibit 6, which is
16 our notice affidavit.

17 EXAMINER CATANACH: Exhibits 1 through 5 will be
18 admitted.

19 And can I ask you who was notified, Mr. Hall?

20 MR. HALL: You know, I spoke with Mr. Brooks
21 about this before filing the Application, and it appeared
22 to us that no notice would have been required, but we were
23 unsure about that.

24 Since there was no encroachment against an offset
25 operator, ownership was the same, and for a nonstandard

1 1-11, and there was two small interests that went
2 nonconsent. We subsequently purchased those interests, and
3 so that -- if you were to go back and look there was a
4 pooling for the Mesa Grande 1-11 but not for the Mesa
5 Grande 2-11.

6 Q. So this thing is subject to a JOA. Now tell me
7 how that works as far as the 80-acre unit goes. Now, do
8 all the interest owners in the west half share in that
9 production from that well?

10 A. Yes, sir.

11 Q. In the same proportion that they own in the 320?

12 A. In the 320.

13 Q. And that's the way the JOA is structured and
14 stated in there?

15 A. Right. If it was set up only for the gas zone,
16 then the JOA would not apply to the shallow oil zones, it
17 would revert to a lease basis. The JOA covers all zones,
18 so all members in the deeper well are also members in the
19 shallow test.

20 Q. Hm. So if you guys would have dedicated 40 acres
21 to this well it would have been the same thing?

22 A. Yes, sir, that's correct.

23 Q. All the interest owners would have shared in the
24 production.

25 A. (Nods)

1 Q. Hm.

2 A. This is a way of making sure that we protect all
3 of the royalty owners.

4 Q. And this is all fee lease, right? Fee leases?

5 A. I'm pretty sure that's correct. I believe
6 there's -- There's no state lease, it's all fee lease,
7 that's exactly right.

8 Q. Now, you're not asserting in this case that the
9 well will drain 80 acres, you're just --

10 A. Absolutely not.

11 Q. -- setting up these proration units to -- what do
12 you accomplish actually, by setting up the 80 -- If
13 everybody is going to be protected anyway, why don't you
14 just dedicate a 40-acre unit to the well?

15 A. That would be fine with us. We though it would
16 be more amenable to the Commission to set it up this way,
17 such that there is no drainage considerations across the
18 quarter-quarter section line.

19 MR. HALL: Mr. Examiner, I discussed this with
20 Mr. Brooks when all the engineers were out of town one day,
21 and considered the possibility of establishing a special
22 project area for a 40-acre unit, but we looked at the rule
23 and it seemed to only apply to horizontal drills.

24 THE WITNESS: This doesn't change anything in
25 terms of development of the formation, and it certainly

1 doesn't diminish the royalty paid to any of the owners.

2 Q. (By Examiner Catanach) Hm. If you drill an
3 additional well, where do you think it might be.

4 A. We'd probably drill it slightly north of the
5 center of the 40, to give us a little more distance between
6 the wells, in the 40 to the north and the southwest of the
7 northwest, and then drill the -- probably the center of the
8 other two 40s, if it works out.

9 Q. Now, you haven't completed in the Bone Springs
10 yet, right?

11 A. No, the order specifically provides that we come
12 to you first.

13 Q. So at this point you don't know what you're going
14 to get, although you don't think it's a pretty good oil
15 show?

16 A. It's one of the best oil shows I've seen in a
17 Bone Springs lime.

18 Q. Would it -- Well, without having data on the new
19 well, I mean, could you say that a well would be -- it
20 would be economic to drill a well to the Bone Springs?

21 A. Without drilling it, no. These wells are
22 notoriously nice shows, and rotten on reserves. So there's
23 a lot of disappointments.

24 This is also an area where there are no offset
25 wells to look at for analogy, so there's no comfort level

1 to look around and say, well, we're in line with wells that
2 were economic or were not economic. Given the fact that
3 there's a sparsity of data, we want to be sure we test the
4 zone before we commit to any additional drilling.

5 EXAMINER CATANACH: One of my concerns, Mr. Hall,
6 was that -- I'm not -- in my memory I don't remember
7 establishing a unit larger than a standard unit, and I was
8 -- I'm trying to address whether we have that legal
9 authority to do that. So we'll -- I guess we'll have to
10 research that and work it out.

11 But I guess from what you guys are saying, it
12 doesn't really matter whether we approve this or not. I
13 mean, we could -- you could ask for just a standard unit,
14 and the correlative rights will be protected, right?

15 MR. HALL: I think that's true, if you would
16 allow a wellbore 19 feet of the quarter-quarter line.

17 Q. (By Examiner Catanach) Well, the circumstances
18 aren't likely to change to affect somebody in the future,
19 do you think? I mean --

20 A. No.

21 Q. I guess the ownership's really probably not going
22 to change.

23 A. No.

24 MR. HALL: I think only by virtue of the uniform
25 ownership, would that be permissible.

1 EXAMINER CATANACH: It's kind of a unique
2 situation, where it seems everybody's going to be
3 protected. I don't know -- you know, we'll have to maybe
4 explore this, explore what we're able to do --

5 MR. HALL: Yeah, I appreciate the problem. I
6 thought about that, and I came to the conclusion that
7 nothing in the rules prevented it.

8 EXAMINER CATANACH: I had always remembered that
9 we weren't -- and I had always been under the impression
10 that we weren't allowed to pool units larger than standard
11 units, and that's what I was always told. But I started
12 looking for it, and I couldn't find anything in the
13 Statutes that prevented that either, so I'm not sure.
14 We'll just do a little research, I guess.

15 MR. HALL: Let me suggest to you, Mr. Catanach,
16 you might see more of these come along, so...

17 EXAMINER CATANACH: Yeah. Well, I could see
18 where it wouldn't be a very good precedent to set, though,
19 unless -- I mean, this has special circumstances that make
20 it kind of -- it's harmless -- I could see how it could be
21 abused.

22 Q. (By Examiner Catanach) Now, this is a wildcat as
23 far as you know, right? It's not in any Delaware or Bone
24 Spring?

25 A. No, it would be a wildcat. There are no -- You

1 can see on the plat, Exhibit 4 -- 5, pardon me -- within a
2 mile there's not a Bone Springs of Delaware completion.
3 And if you expand this out to a couple of townships,
4 there's -- off the top of my head, I don't believe there's
5 any within 10 miles of it. There's a long ways before you
6 get to another Bone Springs-Delaware completion.

7 Q. Uh-huh.

8 A. If you get over into 23-27, 24-27, -28.

9 MR. HALL: Mr. Catanach, I've looked into that.
10 It appears at one time it was within -- or within one mile
11 of the Happy Valley-Delaware Pool. That pool was abolished
12 some time ago. I'm sorry, I don't have the order numbers.

13 EXAMINER CATANACH: I'll look it up.

14 Q. (By Examiner Catanach) Okay. Now, you guys -- I
15 guess you're going to leave the fish in the hole and just
16 plug back from there; is that correct?

17 A. We can't move it. It's 2000-feet-plus of
18 cemented tubing, and there's no way to get it out. I mean,
19 we are plugged from 7700 feet down.

20 Q. Hm. Can the well be adequately plugged from
21 there up?

22 A. Yes, without any trouble at all.

23 Q. I notice there's cement in the tubing at 8950. I
24 guess you can just fill up the tubing with cement.

25 Now, is there actually any Delaware potential?

1 A. There is some Delaware shows right at the very
2 top of the Bone Springs or the lower Brushy Canyon, but
3 they weren't particularly interesting.

4 There is some net pay at a depth of 4700 to 4820.
5 We have 50 units shown. However, the resistivity on those
6 sands yields a water saturation in excess of 50 percent.
7 We would test those, but right now they don't look
8 particularly interesting.

9 There's additional show in the very bottom part
10 of the lower Brushy Canyon, from 4900 to 4954, that had a
11 better gas show and a little bit of oil on pits, but it's
12 only four foot of pay.

13 Q. So it doesn't look too likely for a Delaware
14 completion?

15 A. No, but it might make a nice -- you know, a small
16 recompletion if the Bone Springs would work out.

17 Q. Is there anything else besides those two,
18 Delaware-Bone Spring?

19 A. No, that's it.

20 EXAMINER CATANACH: Anything?

21 MS. MacQUESTEN: No questions.

22 EXAMINER CATANACH: Okay, I think that's all we
23 have.

24 And like I say, we'll do some research on what
25 we're able to do with this, and we'll just go for it.

1 So there being nothing further, Mr. Hall?

2 MR. HALL: That's it.

3 EXAMINER CATANACH: Nothing further in this case,
4 Case 13,594 will be taken under advisement.

5 (Thereupon, these proceedings were concluded at
6 9:05 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13594
heard by me on November 17, 2005.

David R. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) SS.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL November 19th, 2005:



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006